

# **BPA Fish and Wildlife Workshop**

## **Depreciation, Amortization and Net Interest**

**February 11, 2005**

# ***Capital Funding Mechanisms for Fish and Wildlife Investment***

**BPA currently funds capital fish and wildlife investment in two ways:  
Bonds Issued to Treasury, and Capital Appropriations.**

## **Bonds Issued to Treasury**

- Bonds issued to Treasury represent debt issued by Bonneville to the US Treasury since the late 1970's to finance BPA investments in transmission, fish & wildlife, and conservation, and in direct-funded Corps & Bureau investments.
- Bonds outstanding are limited by law to \$4.45 billion. Interest rates are set at prevailing government corporation rates.
- This specifically includes capital investment in BPA's Fish and Wildlife Direct Program. BPA funds the investments, and issues bonds to Treasury to cover the investment. The term of these bonds is not to exceed the average life of the associated investments, which is 15 years. Interest is paid semi-annually on these bonds, and the principal is paid at the end of the term. Callable bonds may be issued, and can be "called" or paid early, but BPA must then pay a premium. BPA pays the full amount of these investments, then receives credits against its Treasury payment, under section 4(h)(10)(C) of the Northwest Power Act, for the non-power portion of the investment.

# ***Capital Funding Mechanisms for Fish and Wildlife Investment (Continued)***

## **Capital Appropriations**

- Appropriations represent funding provided by annual Congressional appropriations for Corps and Bureau capital investments in hydro related facilities, including fish recovery measures, and for BPA investments in transmission prior to implementation of the 1974 (self-financing) Transmission Act. With passage of the 1996 BPA Appropriations Refinancing Act, interest rates are at Treasury's prevailing market rates, without mark-up.
- This specifically includes Corps of Engineers' investment in the Columbia River Fish Mitigation project (CRFM). The Corps receives appropriated funds and uses them for construction. Once a project is completed, it is moved to "plant-in-service" in the FCRPS accounting system. It is at this point that the power portion becomes BPA's obligation to repay to the US Treasury. These obligations must be paid within 50 years.

# **Net Interest, Depreciation and Amortization for Fish and Wildlife**

**BPA manages all of its debt as a single agency portfolio. This includes investment in transmission assets, hydro projects, conservation, and fish and wildlife, as well as non-Federal third-party debt backed by BPA.**

**The capital components of fish and wildlife investment in the Power Business Line revenue requirement are:**

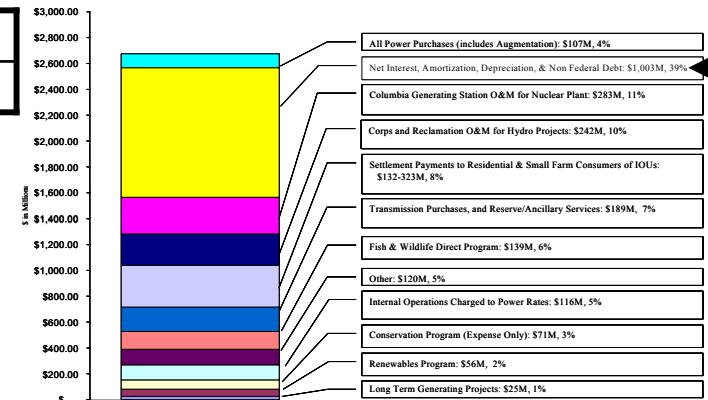
- **Depreciation** – The depreciation of appropriated investment for fish mitigation program at hydro projects managed by the Corps of Engineers, and the Lower Snake hatcheries, depreciated over 75 years.
- **Amortization** – The depreciation of non-revenue producing assets such as BPA's direct fish and wildlife capital investments (non-appropriated), amortized over 15 years.
- **Net Interest** – Comprised of interest on bonds & appropriations netted against interest credit from the Bonneville Fund and certain non-cash items.

**Depreciation and amortization are direct results of the level of capital investment, so will increase or decrease based on investment levels (for amortization) and timing of project completion (for depreciation). Net interest expense, however, has several components, and is influenced by other factors, such as BPA's debt management decisions and the cash balance in the Bonneville fund, in addition to capital investment levels.**

# FY07-09 Power Expenses

## Net Interest, Depreciation & Amortization For Fish and Wildlife

	FY97-01 Average	FY02-06 Average	FY07-09 Average
Program Level	\$75.7M	\$86M	\$130M



### Program:

• This category includes expenses related to the capital portion of the Fish and Wildlife Direct Program, and the Corps investment for fish and wildlife, specifically the Columbia River Fish Mitigation project, or CRFM.

- *Program components of \$130M/year annual expense for FY07-09:*
  - 18% Depreciation.
  - 18% Amortization
  - 64% Net Interest

### Risks:

- Rising interest rates, affecting the cost of future repayment obligations
- Changes in the plant-in-service schedule of the Columbia River Fish Mitigation project by the Corps of Engineers
- Reduced cash balance in the Bonneville Fund, decreasing interest credit

### Opportunities for Reductions:

- Continued aggressive debt management to reduce interest costs
- Continuation of the Debt Optimization Program
- Lower interest rates
- Increased cash balance, increasing interest credit

### Drivers of Change:

- Decreased Federal interest expense due to advance amortization (2001-2009) from Debt Optimization Program
- Plant-in-Service schedule revisions for CRFM
- Change in projected interest income due to change in cash balance

All FY 2005-2009 depreciation and amortization information was provided on January 28, 2005 and cannot be found in BPA-Approved Agency Financial Information, but is provided for discussion or exploratory purposes only as projects of program activity levels, etc. All FY 1997-2004 depreciation and amortization information was provided on January 28, 2005 and is consistent with audited actuals that contain BPA-approved Agency Financial Information. Net interest amounts shown here are derived estimates for presentation purposes, and cannot be found in BPA-approved Agency Financial Information, but is provided for discussion or exploratory purposes only.

Workshop Dates –  
March 1<sup>st</sup> and 17<sup>th</sup>

# Net Interest, Depreciation and Amortization for Fish and Wildlife

<b>PLANT IN SERVICE BY YEAR (\$ millions)</b>	2001	2002	2003	2004	2005	2006	2007	2008	2009
CRFM - 2002 Rate Case Forecast (Annual Average of 18 Alternatives)	\$468.9	\$111.8	\$44.7	\$213.6	\$91.2	\$125.9			
CRFM - Actual 2001- 2004/Forecast	\$6.2	\$8.8	\$68.4	75.9 <sup>1/</sup>	\$17.0	\$182.0	\$100.2	\$113.4	\$147.4
Cumulative (starting from 1978)		\$504.0	\$572.5	\$648.4	\$665.4	\$847.4	\$947.6	\$1,060.9	\$1,208.3

F&W Direct Program Investment (2002 Rate Case Forecast)	\$27.0	\$36.0	\$36.0	\$36.0	\$36.0	\$36.0			
F&W Direct Program Investment -Actual (2001- 2004)/Forecast	\$16.5	\$6.1	\$11.6	\$8.5	\$36.0	\$36.0	\$36.0	\$36.0	\$36.0
Cumulative (Starting in 1985)		\$273.3	\$284.9	\$293.4	\$329.4	\$365.4	\$401.4	\$437.4	\$473.4

<sup>1/</sup> Includes \$15 million transferred from CRFM Construction-Work-In-Progress to plant-in-service at specific dams, rather than to CRFM plant

<b>PROGRAM FIXED EXPENSES - CAPITAL INVESTMENTS (\$ millions)</b>	2002	2003	2004	2005	2006	2007	2008	2009
INTEREST EXPENSE - BPA	\$11.5	\$11.2	\$10.9	\$11.7	\$13.4	\$15.5	\$17.7	\$19.4
INTEREST EXPENSE - NON-BPA	\$37.1	\$38.7	\$42.4	\$44.3	\$49.6	\$57.1	\$62.5	\$69.2
AMORTIZATION EXPENSE	\$17.2	\$17.4	\$17.5	\$18.2	\$19.5	\$20.9	\$22.3	\$23.5
DEPRECIATION EXPENSE	\$12.5	\$13.2	\$14.6	\$15.5	\$17.5	\$20.3	\$22.5	\$25.1
<b>TOTAL FIXED EXPENSES</b>	<b>\$78.2</b>	<b>\$80.4</b>	<b>\$85.4</b>	<b>\$89.7</b>	<b>\$99.9</b>	<b>\$113.9</b>	<b>\$125.0</b>	<b>\$137.1</b>
<b>BPA Capital Expenses</b>	<b>\$28.7</b>	<b>\$28.5</b>	<b>\$28.4</b>	<b>\$29.8</b>	<b>\$32.8</b>	<b>\$36.4</b>	<b>\$40.1</b>	<b>\$42.9</b>
<b>Non-BPA Capital Expenses</b>	<b>\$49.6</b>	<b>\$51.9</b>	<b>\$57.0</b>	<b>\$59.9</b>	<b>\$67.1</b>	<b>\$77.5</b>	<b>\$85.0</b>	<b>\$94.3</b>

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